

Message Text

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ACTION XMB-04

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UNCLAS JAKARTA 13308

PASS EXPORT-IMPORT BANK

EO 11652: NA
TAGS: EFIN, ETRD, ID
SUBJ: INDONESIAN CUSTOMS PATROL CRAFT

1. WE HAVE BEEN APPROACHED BY LOCAL U.S. BANKING OFFICIAL WHO ADVISES THAT EFFORTS BY HIS BANK'S U.S. HEADQUARTERS TO INTEREST EXPORT-IMPORT BANK IN FINANCING U.S. MACHINERY, HARDWARE, SUPPLIES AND TECHNICAL ASSISTANCE THAT WOULD BE USED TO CONSTRUCT (IN INDONESIA) SOME 300 PATROL CRAFT FOR SALE TO INDONESIAN CUSTOMS HAVE THUS FAR BEEN UNSUCCESSFUL. REPORTEDLY EXIMBANK RELUCTANT TO CONSIDER FINANCING BECAUSE BOATS MIGHT BE USED FOR MILITARY PURPOSES. BANKER HAS ASKED EMBASSY TO ENCOURAGE EXIM TO RECONSIDER ITS POSITION.

2. GOI PLANS TO UPGRADE AND INCREASE PATROL CAPABILITY OF CUSTOMS HOPEFULLY TO REDUCE CURRENTLY HIGH INCIDENCE OF SMUGGLING. TOTAL PROJECT CALLS FOR PROCUREMENT OF 14 LONG-RANGE, HIGH-SPEED BOATS, 26 MEDIUM-RANGE, HIGH-SPEED BOATS AND 300 LOCAL RANGE PATROL CRAFT. LONG AND MEDIUM-RANGE CRAFT MUST HAVE WOODEN HULLS; LOCAL PATROL CRAFT (WHICH PRESENT INQUIRY CONCERNS) COULD HAVE EITHER ALUMINIUM OR GLASSFIBER REINFORCED PLASTIC HULLS. FRENCH AND GERMAN GOVERNMENTS ARE REPORTEDLY PROVIDING CONCESSIONAL FINAN-
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CING FOR "SEVERAL" OF THE LONG- AND MEDIUM-RANGE BOATS. GOI HAD ORIGINALLY HOPED TO OBTAIN CONCESSIONAL FUNDING FOR LOCAL PATROL CRAFT ALSO BUT SUCH FINANCING HAS NOT MATERIALIZED.

3. ESTIMATED COST OF LOCAL PATROL CRAFT IS APPROXIMATELY \$33 MILLION, MAJOR PORTION OF WHICH WOULD BE SPENT, IF

BOATS ARE BUILT IN INDONESIA, FOR SUPPLIES SUCH AS MARINE DIESEL ENGINES, TRANSMISSION, TOOLING AND OTHER EQUIPMENT, PRODUCTS IN WHICH U.S. IS A VERY COMPETITIVE, BUT BY NO MEANS EXCLUSIVE, SUPPLIER. AS IS THE CASE WITH ALL GOI PURCHASES, FINANCING PACKAGE OFFERED IN SUPPORT OF U.S. SUPPLIERS WILL BE A CRITICAL FACTOR. WE WOULD HOPE, THEREFORE, THAT IF EXIMBANK CAN FINANCE THIS PROJECT THAT IT WOULD CONSIDER IT IN TERMS OF DIRECT LOAN INVOLVEMENT RATHER THAN LESS COMPETITIVE MEDIUM TERM GUARANTY PROGRAM.

4. WITH REGARD TO CONCERN REGARDING POSSIBLE MILITARY USE OF THESE LOCAL PATROL BOATS, WE WOULD STRESS THAT BOATS ARE TO BE PURCHASED BY DIRECTORATE GENERAL OF CUSTOMS AND EXCISE WITHIN THE MINISTRY OF FINANCE AND THEY ARE INTENDED FOR USE IN A CIVIL, ANTI-SMUGGLING ROLE TO HELP RESOLVE, OR AT LEAST AMELIORATE, A CHRONIC AND SERIOUS PROBLEM GOI FACES IN CONTROLLING IMPORTS AND COLLECTING DUTIES. WHILE IT IS THEORETICALLY POSSIBLE THAT IN PRESENTLY UNFORESEEN CIRCUMSTANCES ARMAMENTS MIGHT BE INSTALLED AND THE BOATS USED FOR MILITARY PURPOSE, THIS WOULD APPEAR NO MORE LIKELY THAN SIMILAR MODIFICATIONS IN HEAVY TRUCKS, LIGHT AIRCRAFT AND A RANGE OF OTHER EQUIPMENT OF A CIVIL NATURE AND FOR WHICH A DETAILED USE STATEMENT IS NOT REQUIRED.

5. WE WOULD VERY MUCH APPRECIATE RECEIVING EXIMBANK
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REACTION TO POSSIBILITY OF DIRECT LOAN FINANCING FOR
THIS PROJECT.
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